Answers

Marks

1 Lorato Motukwa

(a) Chargeable income from business

Working 1 – calculation of capital allowances

		P	Marks
Cost of equipment		361,088	0·5
Additions during year		28,500	0·5
		389,588	
15% capital allowance claim		58,438	0·5

		P	P	Marks
Net profit per accounts			19,162	0·5
Add: purchase of equipment	(Note 1)	28,500		1
Add: purchase of shares	(Note 1)	35,000		1
Add: school fees	(Note 2)	27,237		0·5
Add: traffic fine	(Note 3)	1,200		0·5
Add: VAT penalty	(Note 3)	14,097	106,034	1
Less: capital allowances		58,438		0·5
Less: receipts from medical aid	(Note 2)	5,398		1
Less: dividends received	(Note 4)	2,096		0·5
Less: tax refund	(Note 2)	17,942	(83,874)	1
Chargeable income from business			41,322	
				9

Notes
1. Capital expenditure
2. Personal expenditure or receipt
3. Not in the production of income
4. Dividends are excluded from income

(b) Loss carried forward

	P	Marks
Chargeable income from business	41,322	0·5
Less: loss brought forward	(179,263)	0·5
Loss carried forward	(137,941)	
		1

(c) Taxable income

	P	P	Marks
Salary FTC		286,300	0·5
Motor vehicle benefit (20,000*15% + 10,000)		11,500	1·5
Profit on sale of shares	82,114		1
Less: moveable property allowance – 25%	(20,529)	61,585	2
Chargeable income from business	41,322		
Less: loss brought forward	(179,263)	0	1
	(137,941)		
Taxable income		359,385	
			6

Marks

(d) Tax consequences of sale

		P	
Sale of equipment:		200,000	1
Tax value at 30 June 2012 (working)		(167,126)	
Balancing charge		32,874	

Sale of stock:
The excess of the sale price of stock over its cost will be included in chargeable income. 1

		P	
Sale of goodwill:		450,000	1
Less: 25% moveable property allowance		(112,500)	1
Net disposal gain		337,500	
Tax thereon			
First 100,000	10,000		
237,500 x 25%	59,375		
		69,375	1

The balancing charge and sale of stock will be included in chargeable income but no tax will be payable as the loss brought forward is more than sufficient to offset the income. 1

The sale of goodwill, on the other hand, is a capital gain and cannot be offset against the business loss. 2

Therefore tax of P69,375 will be payable if Lorata accepts the offer.

Working:

	P	P	
Cost of equipment at end of year (per part (a))		389,588	0·5
Allowances: in year	58,438		
: brought forward	164,024		
		(222,462)	0·5
		167,126	9
			25

2 Technical Services Botswana

(a) In terms of s.58 of the Income Tax Act, tax is required to be withheld from designated payments to non-residents. The tax must be withheld from the actual physical payment to the non-resident and must be paid over to the Commissioner General by the 15th of the month following deduction. Interest will be charged on any late payments. It should be noted that the liability to withholding tax is triggered by a payment of an expense and not by accrual of that expense. 3

(b) **(i)** Tax withheld from construction contracts is not a final charge to tax. The non-resident contractor is carrying on a business in Botswana and is required to submit a tax return and to pay normal Botswana income tax. Any tax withheld from payments to the contractor can be claimed as a credit against the contractor's Botswana tax liability.

(ii) Tax withheld from management fees paid to a non-resident is considered to be a final charge in terms of s.33(3) of the Income Tax Act. If withholding tax is paid on the management fees, then there will not be any further charge on that income in Botswana.

(iii) Tax withheld from commercial royalties paid to a non-resident is also considered to be a final charge to tax on that income and the income that is subjected to withholding tax will not form part of the assessable income of that non-resident. 3

			Marks
(c) Withholding tax payable by TSB			
		P	
Rent	(287,640 x 5%)	14,382	0·5
Management fees	(392,060 x 15%)	58,809	1
Interest – non-bank resident	(27,990 x 10%)	2,799	1
Interest – non-resident	(99,480 x 15%)	14,922	0·5
Construction contractors	(6,539,100 x 3%)	196,173	0·5
Dividend	(2,000,000 x 7·5%)	150,000	0·5
		437,085	4

Note: No withholding tax is payable in respect of interest charged by a resident bank.

(d) Taxable income for TSB

Working 1. Balancing charge

	P
Cost	186,634
Capital allowances	(156,082)
	30,552
Proceeds	91,420
Balancing charge	60,868

		P	P	
Net profit			1,507,571	
Add: depreciation		326,072		0·5
Add: management fees paid to non-residents		488,251		1
Add: interest paid to non-residents		99,480		2
Add: impairment of goodwill		350,000		0·5
Add: balancing charge		60,868	1,324,671	1·5
Less: capital allowances		267,524		0·5
Less: dividends received		300,000		0·5
Less: fair value adjustment		500,000		1
Less: profit on sale of assets		38,006		0·5
Less: management fees	(58,809/15%)	392,060		2
Less: interest paid to non-resident	(9,948/15%)	66,320	(1,563,910)	2
Taxable income			1,268,332	12

(e) Tax refundable to TSB

	P	P	
Tax at 22% on P1,268,332		279,033	0·5
Less: SAT paid	265,000		0·5
Less: withholding tax on interest received	10,722		0·5
Less: withholding tax on dividends received	0		1
Less: withholding tax on rents received	22,960	(298,682)	0·5
Tax refundable		(19,649)	3

(f) Entities subject to company tax

(i) Bodies corporate	1
(ii) Unit trusts or collective investment undertakings	1
(iii) Religious entities	1
(iv) Sporting clubs and bodies	1
(v) Social clubs or bodies	1
	5
	30

Marks

3 Matswiri Associates

(a) Correct VAT treatment

1. The basic rule for recording an output supply is the earlier of invoice or cash received. In this case, some cash has been received before the invoice has been issued and accordingly must be included in outputs. 1
2. The machine has been correctly included in outputs and it makes no difference that it had been acquired prior to the introduction of VAT. The sale of the saloon car, however, is incorrect and there is no output VAT on the disposal of assets where the input VAT has been denied. 2
3. The VAT treatment in respect of both discounts received and credit notes received in respect of previous inputs is correct. 1
4. Hotel expenses fall within the definition of 'entertainment' and are a denied input even though the expenses were incurred for business purposes. 1
5. Residential rent is an exempt supply and all expenses in connection with residential houses cannot be claimed as an input credit. 1
6. The extensions to the warehouse have been correctly claimed as an input deduction but the cost of a saloon car is a denied input. 1·5
7. There is a discrepancy between the VAT on the imports declared and the amount actually paid. The input tax deduction in respect of imports is limited to the payment actually made. Therefore the VAT return is incorrect. 1
8. A bad debt can only be claimed after one year from the date it went bad. Export sales are zero rated and accordingly any credit note issued in respect of an export sale is also zero rated. So neither adjustment should appear on this VAT return. 1·5

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(b) Revised VAT payable

	P	P	Marks
VAT payable per return		77,770	
Add: advance payment received	200,000	24,000	1
Add: hotel expenses	11,864	1,424	0·5
Add: repairs to residential houses	32,879	3,945	0·5
Add: Mercedes saloon car input	250,000	30,000	0·5
Add: difference on VAT paid on imports		37,394	0·5
Add: bad debt	47,257	5,671	1
Add: credit export sale	21,746	2,610	0·5
Less: saloon car output	(25,000)	(3,000)	0·5
Revised VAT payable		179,814	
			5
			15

4 Maipelo Gulubane

(a) (i) Tax payable in respect of the Lesedi package

	P	Marks
Salary	516,000	
13th cheque	43,000	0·5
Medical aid	0	0·5
School fees – maximum limit	35,000	0·5
Pension – employer's contribution	0	0·5
Pension – employee's contribution	0	0·5
	594,000	
Less: employee's pension contribution (516,000 x 5%)	(25,800)	0·5
Taxable income	568,200	

	P	*Marks*
Tax thereon:		
First P144,000	13,050	
Next 424,200 at 25%	106,050	
	119,100	0·5

(ii) Tax payable in respect of the BSI package

	P	
Salary	360,000	
Medical aid	0	0·5
Company car (10,000 + 70,000 x 15%)	20,500	0·5
Company housing (200 x 250 x 8%)	4,000	0·5
Commission on sales	200,000	0·5
	584,500	
Tax thereon:		
First P144,000	13,050	
Next 440,500 at 25%	110,125	
	123,175	0·5
		6

(b) Cash flow Lesedi package

	P	
Salary	516,000	0·5
13th cheque	43,000	0·5
Medical aid	(10,500)	0·5
School fees (57,000 – 35,000)	(22,000)	1
Pension – employer's contribution	0	0·5
Pension – employee's contribution	(25,800)	0·5
Rent	(42,000)	0·5
Income tax	(119,100)	0·5
Take home pay	339,600	

Cash flow BSI package

	P	
Salary	360,000	0·5
Medical aid	0	0·5
School fees	(57,000)	0·5
Company car	0	0·5
Company housing	0	0·5
Commission on sales	200,000	0·5
Rent	0	0·5
Income tax	(123,175)	0·5
	379,825	

The BSI package provides greater take home pay by P40,225.		0·5
		9
		15

Marks

5 Joyce Balachi

(a) **Calculation of disposal gain**

	Cost P	Accretion P	Tax cost P	
Original cost – September 2006	600,000		600,000	
Accretion – 600,000 x 1428·8 – 930·8/930·8		321,014	321,014	1
New building – July 2011	1,500,000		1,500,000	0·5
Accretion – 1,500,000 x 1428·8 – 1403·4/1403·4		27,148	27,148	1
	2,100,000	348,162	2,448,162	
Sale price – December 2011			3,000,000	0·5
Disposal gain			551,838	
				3

(b) **Calculation of taxable income**

Working 1 – calculation of capital allowances

	P	
Cost brought forward	158,750	
Additions during year	75,200	
Cost carried forward	233,950	0·5
Capital allowance 10% thereof	23,395	0·5

	P	P	
Income from rents			
Rents receivable		486,400	0·5
Insurance receipt		11,500	0·5
		497,900	
Less: capital allowances (Working 1)	23,395		W1
Less: agent's commission	48,640		0·5
Less: repairs	131,446		0·5
Less: legal costs (Note 1)	0		0·5
Less: interest to purchase shares (Note 3)	0		0·5
Less: brokerage purchase of shares (Note 3)	0		0·5
Less: rates	27,628		0·5
Less: office rent	38,648		0·5
Less: insurance	23,212		0·5
Less: bad debt (Note 2)	18,500	(311,469)	0·5
Chargeable income from rents		186,431	

Notes

1. Costs relating to the drafting of a lease agreement are considered to be of a capital nature.
2. So long as the bad debt has been included in income, then the corresponding deduction can be claimed.
3. Expenses incurred in purchasing shares are not deductible.

Computation of taxable income

	P	
Net rental income	186,431	
Interest income (83,188 – 7,800)	75,388	1
Dividend income	0	0·5
Capitalisation issue	0	0·5
Disposal gain	551,837	0·5
Taxable income	813,656	
		9

Note

1. Dividend income, including the capitalisation issue, is exempt from tax and accordingly does not form part of taxable income. Equally, any costs associated with the dividend income are not deductible.

		Marks
(c) Withholding tax		
	P	
Interest paid to brother 12,671 x 10%	1,267	1
Office rent 38,648 x 5%	1,932	1
Estate agent's commission 48,640 x 10%	4,864	0·5
Stockbroker's commission or brokerage 8,293 x 10%	829	0·5
	8,892	
		3
		15